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China: The Grain Outlook at Midyear

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Intelligence Memorandum

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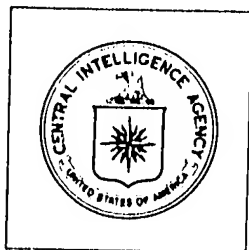
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China: The Grain Outlook at Midyear

KEY FINDINGS

China's grain crop will top the record 255 million metric tons harvested last year, if average weather holds throughout the remainder of the growing season. As a result, China will not likely need much more wheat than the approximate 4 million tons already booked for delivery this year from Canada, Australia, and Argentina.

Summer-harvested grain -- about 20% of China's output -- set a record according to a Peking broadcast, and weather data support the claim. Of key importance were good harvests of winter wheat and barley in North China. Lentils, barley, and sweet potatoes (treated as a grain in Chinese statistics) did less well in most of South China because of damp, cool weather.

Early rice -- also about 20% of China's grain -- is not yet ready for harvest. Peking has been unusually vague about the crop thus far, which suggests unfavorable prospects. The poor weather that affected much of South China earlier this year has already held back plant growth. Because of this, the early rice harvest is likely to fall short of last year's exceptionally good crop.

Fall-harvested grain -- normally 60% of the total -- is off to a good start. The size of the harvest, however, will be largely determined by the weather over the next two months. Growing conditions have been favorable except in Northeast China, where crops were held back by spring drought. Normal weather over the balance of the growing season should result in an autumn crop well above last year's poor crop.

The Dictatorship of the Proletariat campaign currently sweeping China is apparently resulting in increasingly heavy pressure on private activities in the countryside. There have been reports of crackdowns on private plots, private livestock ownership, and free markets. While it is unclear how pervasive the campaign will be, any retreat from Peking's permissive policies in the rural areas could seriously affect peasant incentives and agricultural output in future years.

Note: Comments and queries regarding this memorandum are welcomed. They may be directed to [REDACTED] of the Office of Economic Research, Code 143, Extension 5868.

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DISCUSSION

Introduction

1. This memorandum reviews weather conditions, fertilizer supplies, and a number of other factors affecting this year's agricultural production and discusses Peking's current grain import position. It also comments on a possible new campaign to clamp down on private activities in the countryside.

Programs To Develop Agriculture

2. Since the early 1960s, Peking's programs to increase agricultural output have centered on improving the supply of industrial inputs needed for crop production and for more intensive land utilization. From late 1962 until the onset of the Cultural Revolution (1966-69), the industrial sector was directed to this end. The Cultural Revolution was accompanied by a campaign of self-reliance which shifted the primary responsibility for manufacturing agricultural inputs from the state to the commune or production brigade. Thousands of small, locally constructed plants sprang up throughout the countryside. While these plants added materially to the inputs available to agriculture, most of their products were of low quality and inadequate for modern agricultural practices. As a result, the gap between the rate of population growth and the increase in grain production probably widened. Therefore, beginning in November 1972, Peking again turned to accelerated investment of state funds in modern industries supporting agriculture. Crash programs were introduced to upgrade farmland to high-yield status to insure that modern inputs, especially chemical fertilizers, could be used more efficiently.

3. The Chinese also introduced faster maturing varieties of seed, more extensive intercropping, better water control, and substitution of chemical fertilizer for crops of green manure. These initiatives, together with additional rural labor, allowed increasingly intensive land utilization through expanded double or triple cropping, reduced the amount of seasonally fallow farmland, and permitted the substitution of higher - for lower - yielding crops.

4. Peking's investment and land utilization programs have been most effective in upgrading summer crops and early rice.¹ For example, extensive areas

1. The Chinese grain harvest consists of an early and a late (autumn) harvest. The early harvest consists of (a) spring- and summer-harvested grains (including wheat, barley, rye, pulses, sweet potatoes, and fast-maturing catch crops sown in early spring and harvested in the early to midsummer) and (b) early rice. The summer grains and early rice each account for about 20% of China's production of grain. The late harvest, consisting primarily of intermediate and late rice and coarse grains (corn, millet, and sorghum), is the more important and provides about 60% of the total annual output of grain.

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of paddy land in Central China formerly lay idle over the winter to collect the water required for transplanting rice in the spring. With irrigation, many of these fields now grow either a winter crop or two rice crops. Conversely, large lowland areas in North China were too wet to sow a winter crop. Large areas have now been drained, and winter wheat can be grown. Finally, winter wheat is gradually replacing lower yielding lentils and barley in some areas of South China. These programs have increased the combined output of summer-harvested grains and early rice from less than one-third to about two-fifths of China's annual grain.

Fertilizer

5. Fertilizer supplies have not kept pace with the requirements for expanded double cropping and higher yielding crops. Domestic chemical fertilizer output, which increased only marginally in 1974, is expected to remain at about the same level this year. Fertilizer imports declined in 1974, and deliveries for this crop year probably are down even further.

Summer Grain Harvest

6. Peking claimed the summer grain harvest this year was a record and that output was up in 19 of China's 24 provinces, municipalities, and regions that grow summer crops. Weather data support this claim. Last year, increases were claimed by only three provinces. This year's crop was certainly better than the poor summer harvests of the last two years, although there were problem areas. Damp, cool weather prevailed over much of Central and South China throughout the spring and early summer (Figures 1 and 2). Excepting Kwangtung Province, output was down in most provinces. These losses, however, were more than offset by a good harvest of winter wheat and barley in North China, which normally depends on grain imports.

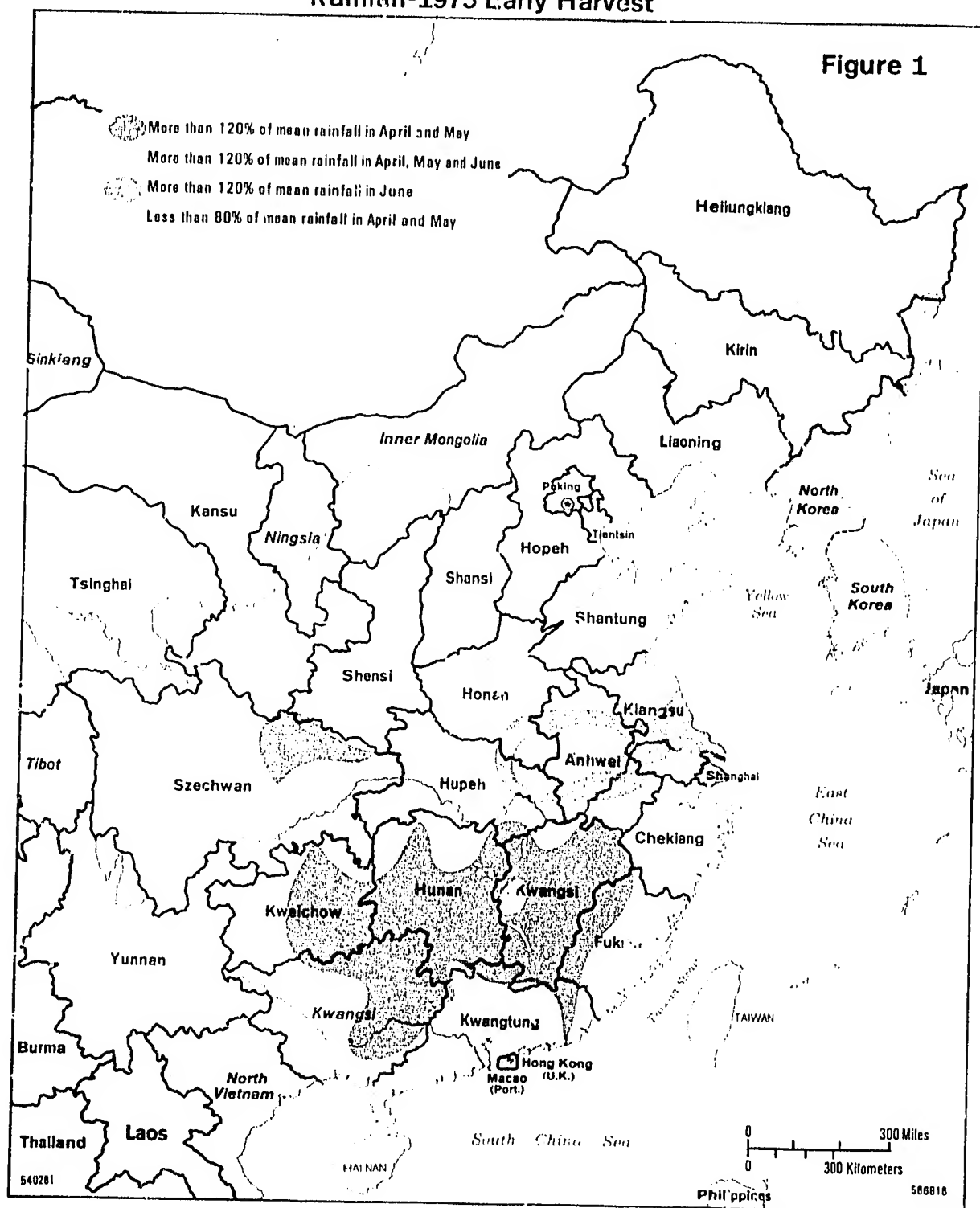
7. Acreage data indicate growing conditions were better in North China. Last fall, Peking reported the major winter wheat provinces seeded about 400,000 hectares more wheat for harvest in 1975 than a year earlier. The Chinese later reported the increase of all winter crops nationwide was only 133,000 hectares, indicating winter crop acreage in South China was down markedly.

8. The output of spring wheat - about 10% of China's total wheat harvest - may be down this year. Two key producing provinces - Heilungkiang and Kirin - were affected by spring drought. To the south, Liaoning Province fared somewhat better, with total wheat output reportedly up by 20% this year. Most of the increase

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Rainfall-1975 Early Harvest



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Temperature-1975 Early Harvest



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is the result of doubling winter wheat acreage at the expense of spring wheat. This substitution can increase yields considerably if growing conditions are right for winter wheat.

Early Rice

9. Thus far, Peking has been unusually vague about the early rice crop. Since the Chinese have made a concerted effort to increase the production of early rice since the early 1960s and normally give the crop wide coverage in the press, this suggests they do not expect to match last year's good harvest. Early rice accounted for about half the increase in grain output between 1961 and 1965. Further advances were made between 1969 and 1971, when the acreage was increased by about one-third. The expansion in acreage was accompanied by shifts to short-stem, higher yielding varieties. By the early 1970s, early rice had probably become the most important of China's three rice crops.

10. The program has not been without pitfalls. Most of the acreage increase has been in Central China, where the single rice crop has been replaced by a double rice crop.² The simultaneous harvesting and planting of rice (and the need to harvest late rice before winter) have exceeded the capabilities of the rural labor force in some areas. Also, unlike traditional long-stem rice varieties, short-stem varieties cannot tolerate deep, standing water. Heavier than normal precipitation, as in 1973, can ruin fields lacking good drainage.

11. The outlook for this year's early rice crop is still uncertain. Weather will determine yields over the balance of the growing season. The problem is that growing conditions have not been as favorable as last year. South and Central China were blanketed by damp, cool weather throughout much of the spring and early summer. Last year, seven provinces reported early rice acreage increases totaling about 350,000 hectares. This year, only three provinces have reported increases, and these total less than 50,000 hectares. Acreage is likely down in at least some of the remaining provinces. As a consequence, the early rice harvest will likely fall short of the exceptionally good 1974 crop.

2. The growing of two crops of rice in one year does not mean the productivity of the land will be double that of single crop. Because of more favorable growing conditions throughout its life cycle, an intermediate crop of rice usually yields higher than either an early or a late rice crop. South China is normally cloud covered during much of the spring and early summer. Thus, late rice normally outyields early rice by a wide margin. The reverse is true for Central China; early rice normally yields more than late rice. In general, two crops of rice may yield 30% to 50% more than a single rice crop.

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Autumn Harvest

12. The size of the fall harvest will largely be determined by weather over the next two months. Growing conditions have been favorable, except in Northeast China, where crops were held back by spring drought. Normal weather conditions over the balance of the growing season should result in an autumn crop well above last year's poor harvest. If so, the total grain output will top the record 255 million tons set in 1974.

Impact on Imports

13. Peking imports grain to maintain rations in urban areas of North China, and imports fluctuate with that region's grain harvest. The winter wheat harvest was good in North China this year. Thus, the Chinese are not likely to require much more than the roughly 4 million tons of wheat already booked for delivery in 1975.

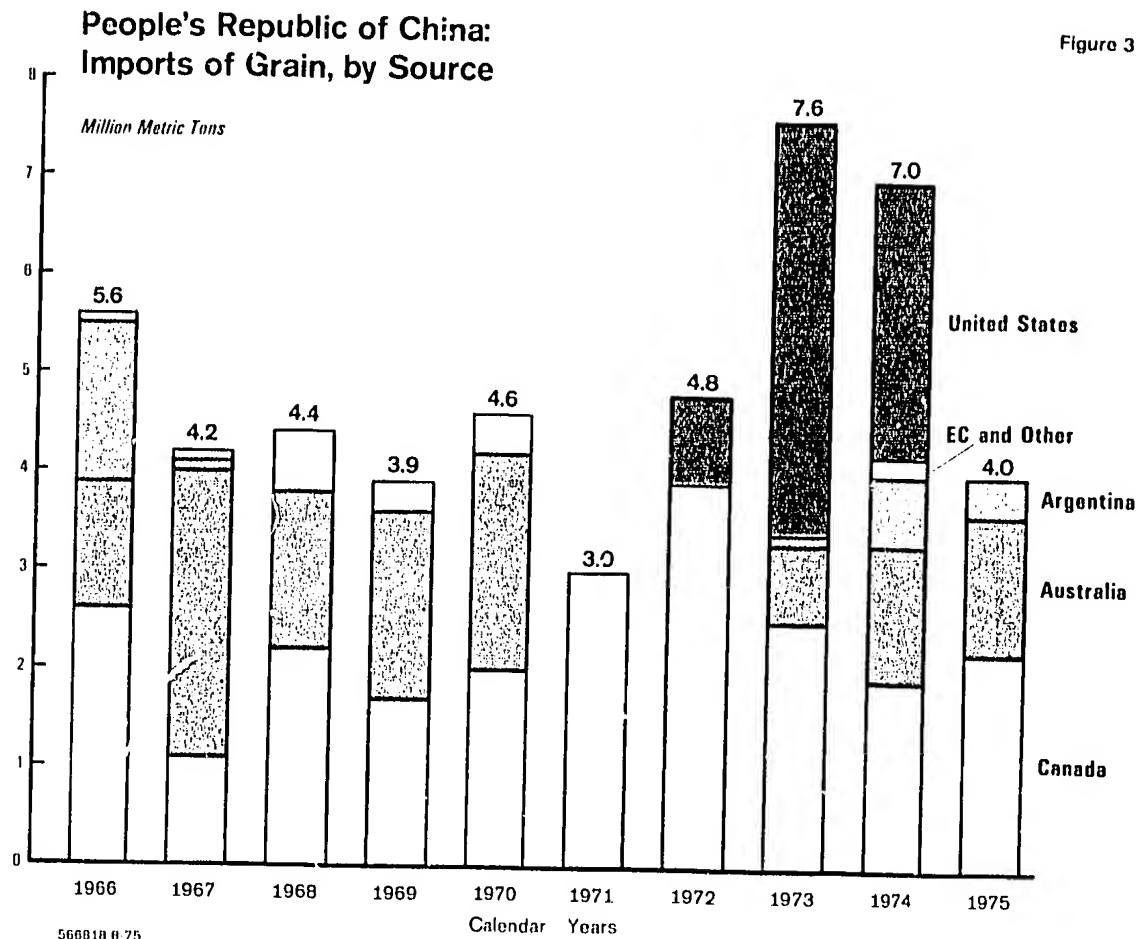
14. China is obligated to purchase from 3.8 to 4.8 million tons of wheat annually through 1976 under long-term agreements with Canada, Australia, and Argentina. Peking has contracted for 4.3 million tons of wheat for delivery in 1975, including 700,000 tons from Argentina. Actual deliveries from Argentina, however, probably will not exceed 400,000 tons.³ The Chinese may make up the deficit elsewhere. Peking apparently views the United States as a source to be tapped only if usual suppliers are unable to meet its needs (see Figure 3).

Possible Policy Shift

15. Recent reports indicate that the Dictorship of the Proletariat movement currently sweeping China is partly designed to increase agricultural production by eliminating bourgeois influences. Such vestiges of free enterprise as private plots, private livestock ownership, sideline activities, and free markets are apparently coming under increasingly heavy pressure. More specifically, recent press editorials have suggested a shift from private to collective ownership of hogs.

16. Herding peasants into communes and eliminating private plots sapped rural incentives during the Great Leap Forward in the late 1950s. Since then, the

3. In the fall, Peking will probably contract for 2.5 to 5.0 million tons of wheat from Canada and Australia for delivery in 1976 under the third and final year of the long-term agreements. The balance of the agreement with Argentina reportedly has been abrogated by Buenos Aires. China thus may not import any Argentine grain in 1976.



regime has been careful to maintain individual incentives. Peking insulated the rural sector from the most serious abuses of the Cultural Revolution and was quick to ostracize overzealous cadres attempting to clamp down on permissive policies in the countryside. Rural policies were further liberalized after the Cultural Revolution had run its course. Sideline activities such as pottery and brick making were encouraged, and the terms of trade were adjusted to favor rural areas. Peasants and production teams were encouraged to cultivate private crops on waste land, and the distribution of the harvest was adjusted to give the peasant a somewhat higher return for his labor. Although Peking complained from time to time that the peasants were spending too much time in private activity and were too occupied with monetary gain, the incentives were maintained.

17. While it is still uncertain if the current clampdown on private activities is the work of a limited number of overzealous cadres, as in the early stages of

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the Cultural Revolution, or a nationwide policy handed down by the regime, as during the Leap Forward, one thing is clear. Any retreat from Peking's permissive policies in the countryside would run a high risk of crippling output and seriously impeding agricultural development in future years.

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